

INDIANA DEPARTMENT OF TRANSPORTATION

100 North Senate Avenue, Room N725
Indianapolis, Indiana 46204-2249

January 1994

Contract Audit Circular: 93-12-06

SUBJECT: Advertising/selling costs

DEFINITION ISSUE: During an overhead survey of a consultant, the auditor encounters advertising costs and/or selling costs by the consultant.

ALLOWABILITY: FAR 31.205-1 addresses advertising and public relations costs. Advertising costs are allowable as an overhead item if required for contract performance. This includes want ads for employees needed for the contract, ads to acquire scarce items, and ads to dispose of scrap materials. Public relations costs are generally restricted to communicating with the public. Allowable costs can include responding to inquiries, general liaison with the press and government public relations officers on matters of public concern, costs of participation in community service activities (such as blood bank drives), and costs of open houses (except for the costs of gifts, souvenirs, refreshments, entertainment and promotional materials designed to call favorable attention to the consultant and its activities).

FAR 31.205-38 addresses selling costs. Direct face to face selling costs (pre contract) are allowable, if reasonable and they are intended to interest the person or persons responsible for selecting or awarding the contract for a particular project.

Example 1.

APPLICATION: At the consultant's request, ads were placed in the telephone directory and several magazines.

ACTION: These costs would not be allowed in the overhead calculation.

Example 2.

APPLICATION: A consultant has memberships dues in various civic and community organizations.

ACTION: Membership dues are unallowable in the overhead rate. Other costs incurred during participation in the function would be considered on their individual merit.

Example 3.

APPLICATION: At a seminar, a consultant rents a hospitality room and offers refreshments.

ACTION: These costs are unallowable overhead items.

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Example 4.

APPLICATION: A consultant prepares brochures to distribute at seminars and conventions.

ACTION: These costs are unallowable overhead items.

Example 5.

APPLICATION: A consultants's employee or agent makes a call on public officials to take them to lunch in an attempt to persuade the use the firm's services.

ACTION: This is considered to be public relations and is an unallowable overhead cost.

Example 6.

APPLICATION: A consultant is informed that a county is planing to build a bridge, and makes the trip to persuade the county officials that the consultant's firm should design the bridge.

ACTION: The costs of the sales trip is allowable as an overhead item since there was a specific project in mind which can be documented.

SOURCE: FAR 31.205-1 and FAR 31.205-38